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# Metro Vancouver SWOT and Scenario Analysis Executive Summary



September 29 2020

This document is an executive summary of a draft report prepared for Metro Vancouver with initial findings and observations. The data and analysis presented within this report have been provided to Metro Vancouver for the purpose of identifying the potential strengths, weaknesses, opportunities and threats to the region from the perspective of a potential investor and summarizing the economic landscape in the region and potential economic recovery scenarios. This study does not represent a cost-benefit analysis for Metro Vancouver or any other party and does not represent an analysis of the likelihood of investment activities. In particular, Deloitte LLP (“Deloitte”) does not assume any responsibility or liability for losses incurred by any party as a result of the circulation, publication, reproduction or use of this initial analysis contrary to its intended purpose.

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The COVID-19 pandemic is constantly evolving, with information on economic conditions and public policies changing daily. While Deloitte has made every attempt to use up-to-date inputs and assumptions, the analysis herein is limited to information available as of **September 11<sup>th</sup>, 2020**. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting this analysis, which may come or be brought to our attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the analyses after the date hereof, we reserve the right to change, modify or withdraw the analysis. We anticipate comments and changes from Metro Van prior to the finalization of this analysis.

Observations are made on the basis of economic, industrial, competitive and general business conditions prevailing as at the date hereof. In the analyses, we may have made assumptions with respect to the industry performance, general business, and economic conditions and other matters, many of which are beyond our control, including government and industry regulation.

No opinion, counsel, or interpretation is intended in matters that require legal or other appropriate professional advice. It is assumed that such opinion, counsel, or interpretations have been, or will be, obtained from the appropriate professional sources. To the extent that there are legal issues relating to compliance with applicable laws, regulations, and policies, we assume no responsibility therefore.

We believe that our analyses must be considered as a whole and that selecting portions of the analyses or the factors considered by it, without considering all factors and analyses together, could create a misleading view of the issues related to the report. Amendment of any of the assumptions identified throughout this report could have a material impact on our analysis contained herein. Should any of the major assumptions not be accurate or should any of the information provided to us not be factual or correct, our analyses, as expressed in this report, could be significantly different.

Metro Vancouver is a federation of 21 municipalities, one treaty First Nation and one electoral area that collaboratively plans for and delivers regional-scale services. The latest service added to Metro Vancouver's mandate is the Regional Economic Prosperity Service, which aims to:

1. Actively seek companies interested in expanding to, and investing in the Metro Vancouver region and;
2. Connect investors with the right opportunities that will facilitate the successful growth of their business.

In 2019, Metro Vancouver retained Deloitte to supplement a preexisting business case for the new service with a 'Companion Document', which defined the mandate and focus of the service, the operating model and funding requirements, implementation plan and KPI's as well as the characteristics of the types of investments the service will focus on attracting. Specifically, **the service will focus on attracting "strategic" investment from both domestic and international sources, which is defined as "investment that generates significant economic, employment and community benefits that improve the long-term competitiveness of the region"**. Key characteristics of this type of investment are significant regional economic contributions, high-quality and sustainable employment opportunities, impact on the international reputation of the region and significant social or community benefits, among others\*. Notably the regional service does **not** have a mandate to attract other types of investment (e.g. investment that does not create quality employment opportunities) or to achieve broader economic development goals.

Following the adoption of the Companion Document in 2019, the Metro Vancouver Board directed staff to create the Regional Economic Prosperity service as a regional district function, housed within the Metro Vancouver organization. Metro Vancouver is currently in the process of launching this new service and establishing its leadership team.

In order to support the launch of the Regional Economic Prosperity Service, Metro Vancouver retained Deloitte to execute the research and analysis contained in this document, with the objective of identifying key economic drivers in the regional economy, understanding the impacts of the COVID-19 pandemic, analysing potential recovery scenarios, and assessing the key strengths, weaknesses, opportunities and threats to the region from the perspective of an investor.

*\* A summary of the characteristics of "strategic investment" can be found on page 5 of this document, and full detail is available the "Companion Document" to the Business Plan for the Regional Economic Prosperity Service. Metro Vancouver is currently refining the definition of "strategic investment" with input from the Regional Economic Prosperity Advisory Committee.*

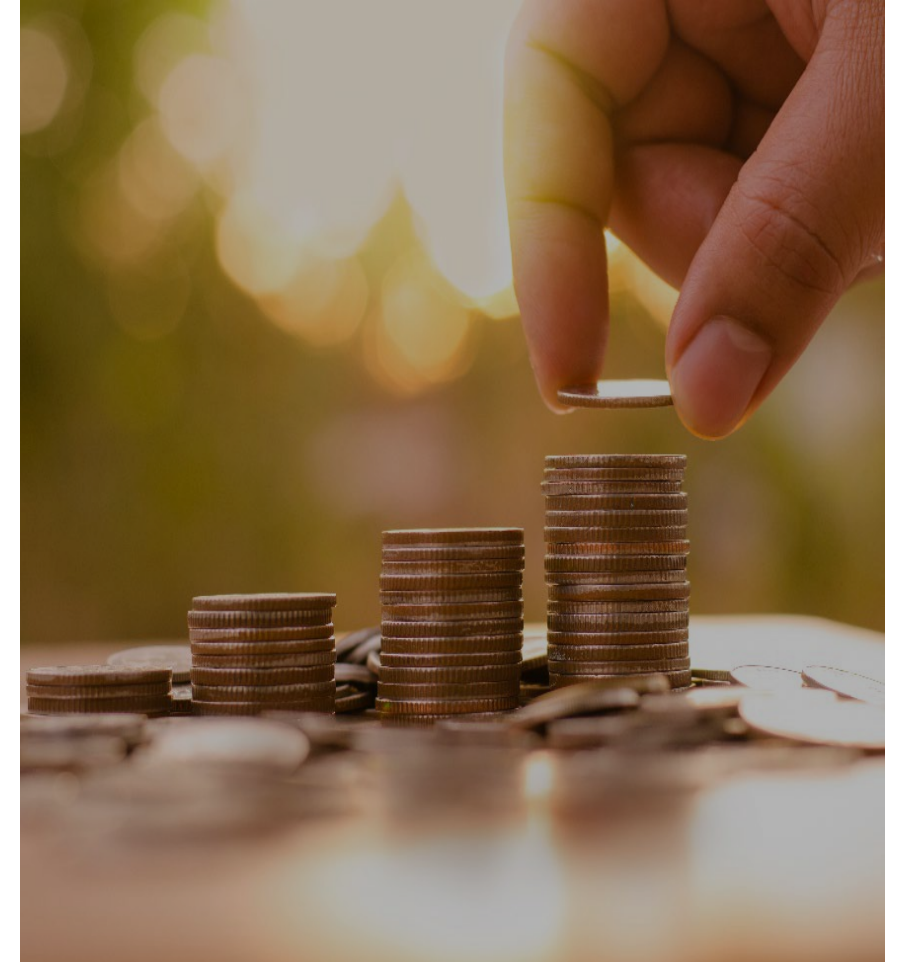




This document is an **executive summary of a larger report** delivered to Metro Vancouver, which was developed with the following objectives:

1. Summarize the **Economic Landscape** of the Metro Vancouver region ('the region'), including key economic clusters and drivers of growth, leveraging existing data and research
2. Develop **Economic Recovery Scenarios** for the region that leverage global and national economic outlooks and use different assumptions regarding the severity of economic disruption and recovery paths across sectors
3. Execute a **regional SWOT Analysis from the perspective of a potential investor**, that identifies the strengths, weaknesses, opportunities and threats for the region as it relates to attracting investment
4. Develop elements of a **Regional Value Proposition** that characterize Metro Vancouver's key advantages vis-à-vis other jurisdictions

This report does not constitute an investment attraction strategy for the Metro Vancouver region, but is rather intended to provide a fact-base and forward looking projections that would assist the Regional Economic Prosperity Service with the development of such strategy. Furthermore, this report is not intended to provide a COVID recovery plan for the region or for specific sectors in the region.



# Introduction to “Investment”

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## What is “investment” and why is it important?

Broadly defined, “business investment” refers to the commitment of funds to create, develop or expand a business with the expectations of future returns. Such investment can take the form of a company establishing or expanding its operations in the region or investing in productivity enhancing assets, such as machinery, equipment and intellectual property.

Business investment comprises a relatively small share of GDP in Canada and the Metro Vancouver region, however it is responsible for a disproportionate share of the fluctuations in economic growth (both positive and negative). Business investment is critically important to the economic prosperity of Metro Vancouver, given that it:

- Typically leads to **higher productivity** which tends to **increase incomes and standards of living** (i.e. individual prosperity)
- Makes **businesses more competitive** on a global stage, which is critical for Metro Vancouver as an export-intensive economy
- Is a key determinant of the **long-term potential growth** path of the economy, which drives economic opportunities and the fiscal capacity of government to spend on public priorities
- Can result in the **transfer of knowledge, technology and human capital** to Metro Vancouver, further enriching the regional economy and labour market
- Can be a critical component of **accelerating economic recovery and managing accumulated debt** due to the COVID pandemic

Of note is that in recent history Canada has had a poor performance when it comes to business investment. For example, the overall stock of machinery and equipment has declined every year for the last 5 years.

## What type of investment is in focus of the Regional Economic Prosperity service?

The Regional Economic Prosperity service will focus on the attraction of a specific type of business investment, referred to as “**strategic investment**”. It is defined as “*investment that generates significant economic, employment and community benefits that improve the long-term competitiveness of the region*”. Notably, the service will focus on attracting investment from **both international and domestic** sources outside of Metro Vancouver. Also of note, is that this does **not include attracting public investment** to Metro Vancouver, such as funding from federal and provincial governments.











The characteristics of strategic investment are summarized on the next slide.



# Characteristics of ‘Strategic Investment’

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The Regional Economic Prosperity service led by Metro Vancouver is looking to attract “strategic investment” from both domestic and international sources; specifically, strategic investments have the following characteristics:

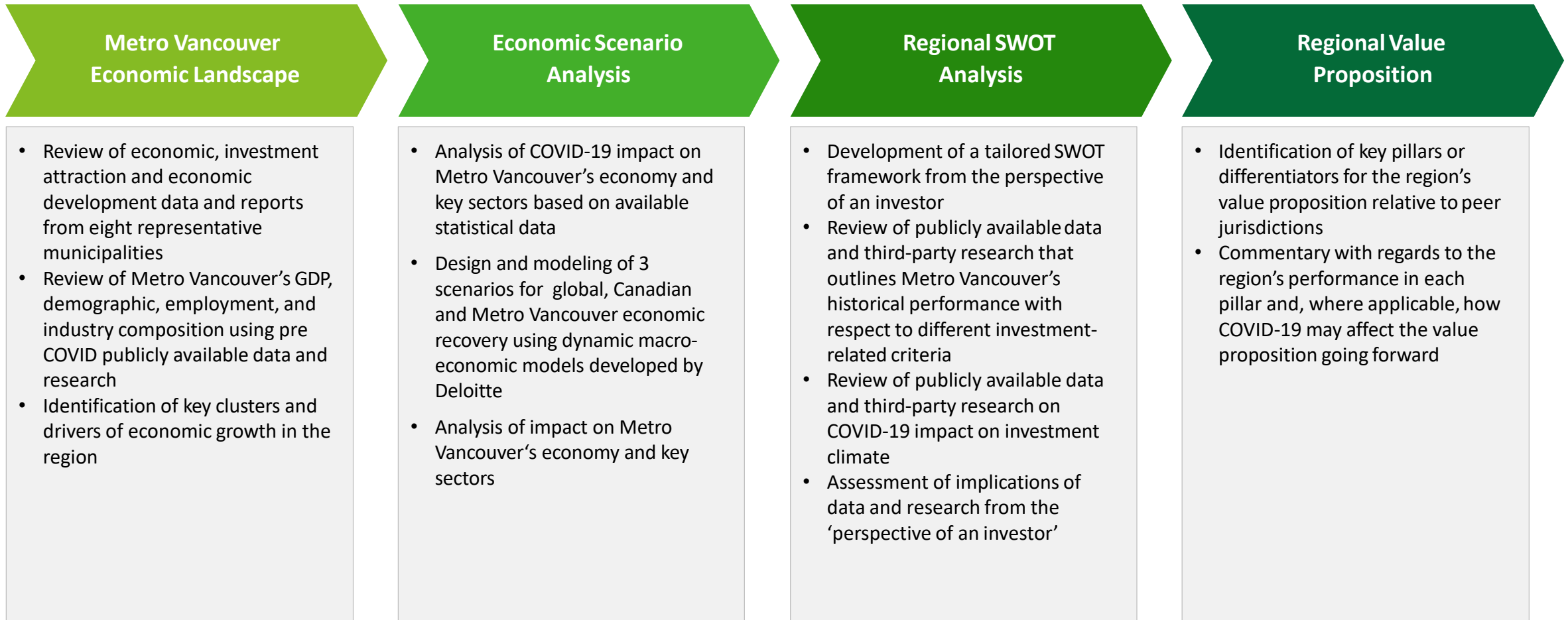
 <b>Regional economic contributions</b>		The ability to demonstrate significant <b>direct, indirect and/or structuring contributions to the region’s economy</b> . Examples include: direct and indirect contributions to regional GDP, employment, income, and government revenues as well as long-term, “structuring” impacts such as contributions to critical infrastructure, economic diversification, regional supply chains, human capital attraction/development, etc.
 <b>High-quality, sustainable employment opportunities</b>		The ability to attract and retain within the region <b>jobs with highly desirable characteristics</b> . These may include: executive-level / decision-maker roles or subject matter expert roles, jobs that offer salaries and wages above geographic/industry averages, employment in priority occupations, and jobs with higher than average employment multipliers (i.e. that indirectly stimulate employment in other sectors).
 <b>Impact on the international profile of the region</b>		The <b>enhancement of the perceived attractiveness, profile or reputation of the region</b> on a global stage as a place for business and talent in target economic areas. Examples include: high profile or “flagship” investments commanding significant public attention (regardless of size), “anchor” investments that serve as cluster catalysts, first-ever expansions into Canada for a major firm, or a global center of excellence or R&D center.
 <b>Investment proposal maturity</b>		The presentation of a <b>mature investment proposal with well-articulated intentions</b> and business plan. Example criteria include: presence of a detailed business case, a clear definition of investment size/scale, and the progression of site selection and talent sourcing activities.
 <b>Significant social or community benefits</b>		<b>Evidence of benefits to the regional community and quality of life</b> . Examples include: direct investments and social programs that benefit the community, sponsorships or donation to community initiatives, engagement of indigenous communities in project delivery, Investments in public safety, security, education or health outcomes, contributions to workforce or social diversity and inclusion.

1. A comprehensive list of the characteristics of “strategic investment” is available in the “Companion Document” to the Business Plan for the Regional Economic Prosperity Service.

# Summary of Study Components and Approach

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This study employs both quantitative and qualitative analysis to examine 4 key components relevant to Metro Vancouver's ability to attract investment

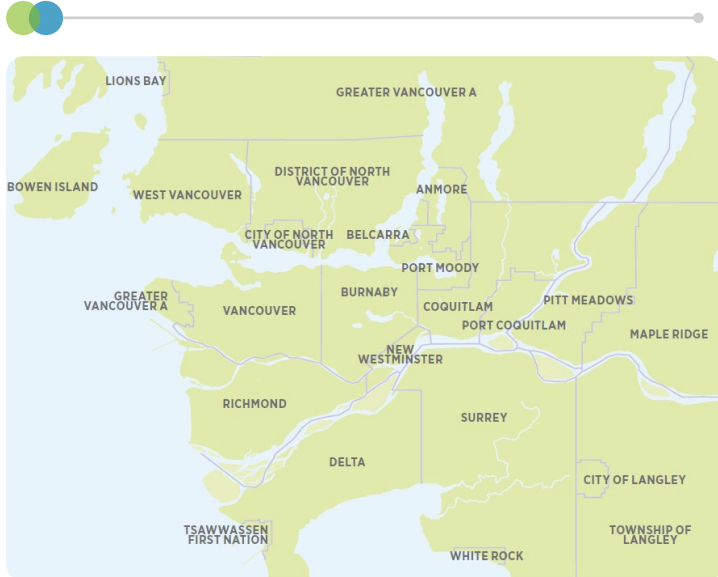




# Introduction to Metro Vancouver

As Canada's third-largest metropolitan region, Metro Vancouver is the industrial, commercial, and financial heart of British Columbia, accounting for just over 60% of BC's GDP and over 50% of BC's population

## Map of Vancouver Census Metropolitan Area



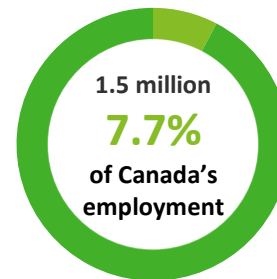
## Economic Profile

- Metro Vancouver is **Canada's third-largest metro region**, in population and economic activity, after Toronto and Montreal
- Over the 12-month period before the COVID-19 pandemic, Metro Vancouver's population grew by approximately 40,000 people (ranked the **12th fastest growing metropolitan region** in North America, and the **3rd fastest growing metropolitan region in Canada** in 2019)
- Population growth has largely been driven by immigration, with approximately **35,000 global citizens immigrate to the region** on an annual basis
- Metro Vancouver is the **industrial, commercial, and financial heart** of British Columbia, accounting for just over 60% of BC's GDP in 2019 and over 50% of BC's population
- **Metro Vancouver's GDP grew by 3.3% annually on average** during the five years leading up to 2019, driven by the strength of key domestic sectors such as the real estate; professional, scientific and technical services; construction; and transportation and warehousing industries
- Together, **Finance, insurance, and real estate** represent Vancouver's largest industries and accounted for almost a third of the region's GDP in 2019

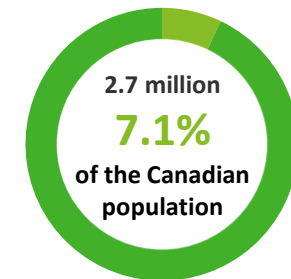
### GDP | 2019



### Employment | 2019



### Population | 2019





# Overview of Key Industrial Clusters in the Region

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Metro Vancouver is home to several established, niche, and emerging clusters that represent key sources of comparative advantage and growth drivers in the region

## Established Sectors/Key Traded Clusters<sup>1</sup>



### Gateway and Transportation

Port of Metro Vancouver, Vancouver International Airport, Air, Truck and other Transportation, Storage and Courier Services



### Tourism

Tourism-related Accommodation, Transportation, Attractions, Entertainment, Food and Beverage



### Information / Cultural

Publishing, Motion picture, Sound Recording, Radio and TV Broadcasting



### High-Tech

Telecommunications, Computer and Electronic Manufacturing, System Design, Data processing



### Finance, Insurance, Real Estate

Financial Services, Insurance Carriers, Real Estate, Rental and Leasing services

## Niche and/or Emerging Clusters



### Technical Apparel

Athletic and technical apparel manufacturing, Design and development, Retail and corporate support



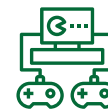
### Green Economy

Local food, Green building, Clean technology, Green infrastructure and transportation, Sustainability services, Land and water remediation and environmental consulting, Materials management



### Medical Technologies

Biotechnology, Artificial Intelligence, Medical Devices, Information Technology



### Video Games and Interactive Media

Video Games, Animation, Special Effects

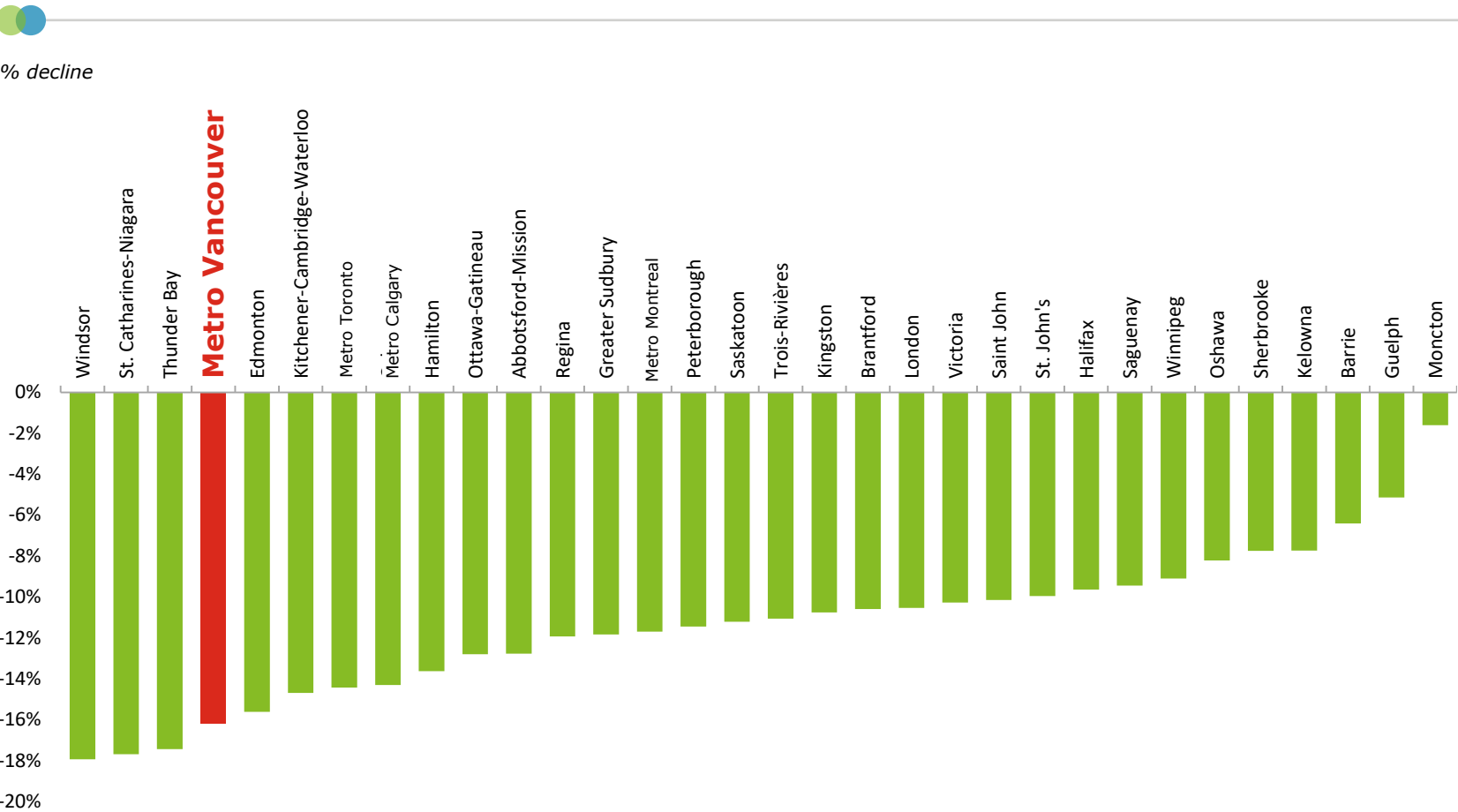
Source: The Conference Board of Canada Reports, Oxford Economics, Greater Vancouver Board of Trade, Vancouver Economic Commission

<sup>1</sup>The Conference Board of Canada refers to traded clusters as a group of firms and institutions that are located near one another and draw productive advantage from their mutual proximity and connections; they also serve markets beyond the region in which they are located.

# COVID-19 Impact in Metro Vancouver

Among Canadian Metropolitan Areas, Metro Vancouver has been one of the hardest hit by the COVID-19 recession, given its service-intensive economy

## Employment losses in the first six months of 2020



Compared to other Canadian urban centers, the Metro Vancouver region was one of the hardest hit by the COVID pandemic with both economic output and employment contracting significantly

About 240 thousand jobs were lost in the Metro Vancouver economy over the first 6 months of 2020;

While the current unemployment rate is roughly in line with that for Canada and BC, it was significantly lower than average pre-COVID

Regional economic output began growing again in May, however a potential second wave of the virus in the fall could slow the pace of recovery

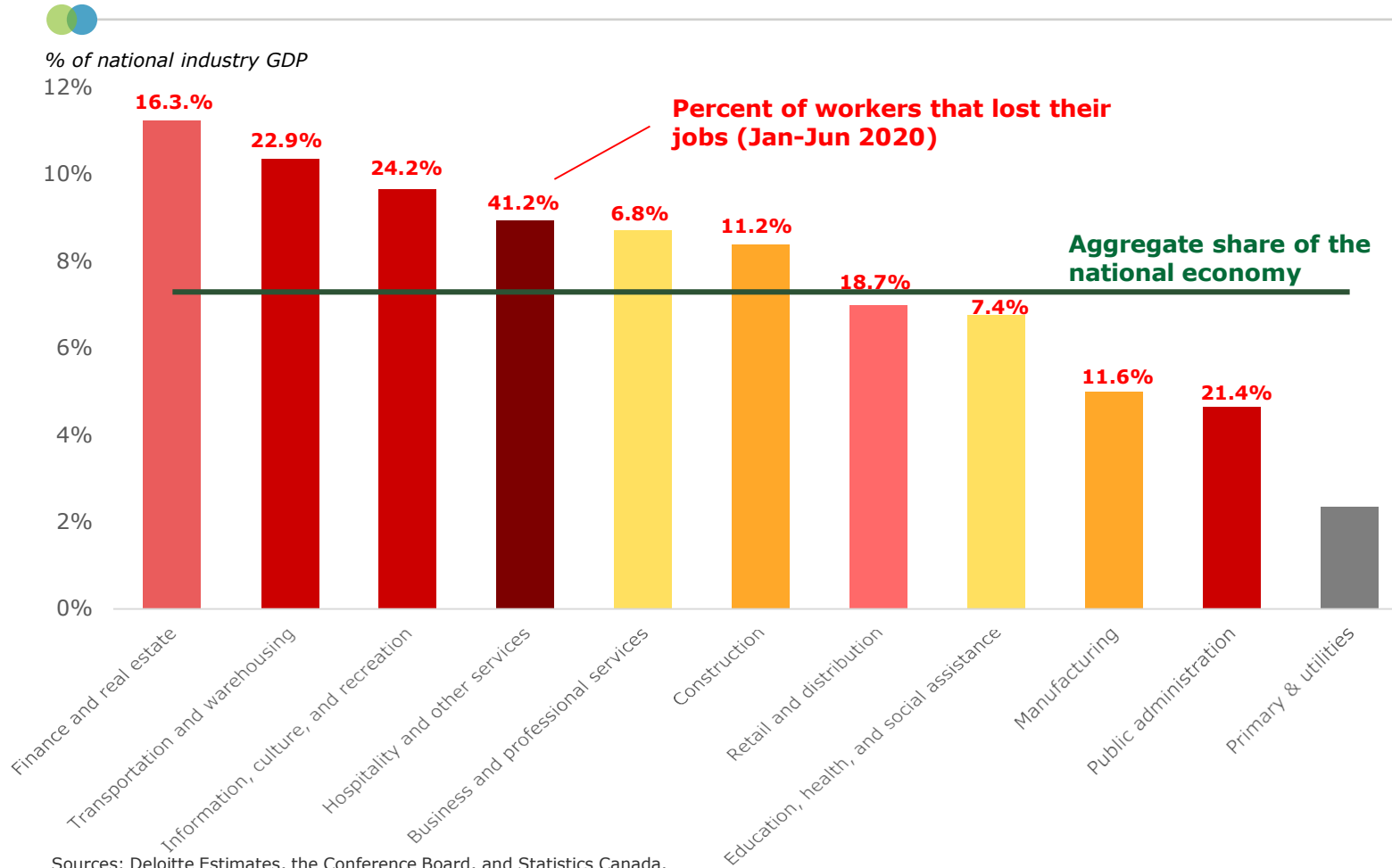
Source: Deloitte Calculations, Statistics Canada.

# COVID-19 Impact in Metro Vancouver

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While the economic contraction has been broad, employment losses are concentrated in industries that are overrepresented in the Metro Vancouver economy

## Metro Vancouver employment losses in over-represented sectors<sup>1</sup>



Sources: Deloitte Estimates, the Conference Board, and Statistics Canada.

<sup>1</sup>The line in the chart indicates if an industry is more or less represented in Metro Vancouver relative to Canada. The primary and utility sector reported net employment gains (no losses) during the COVID crisis. Because this is a very cyclical sector, the percentage is not reported in the chart.

Accommodation and food services as well as culture, recreation, and transportation are examples of industries that are overrepresented in Metro Vancouver's economy compared to Canada as a whole

These same industries were exposed to the greatest economic impact from the COVID-19 pandemic and associated policy response

While the direct negative impact on these industries has been severe, it has been partially offset by government support programs such as the Canada Emergency Response Benefit ("CERB")

The FIRE (finance, insurance, and real estate) and professional/business services industries have been more resilient to the pandemic and were able to better adapt to a remote work environment

# Global and Canadian Economic Recovery Scenarios

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Three economic scenarios were modeled, using different assumptions regarding the duration and severity of economic downturn in the global, Canadian, BC and Metro Vancouver economies

Optimistic

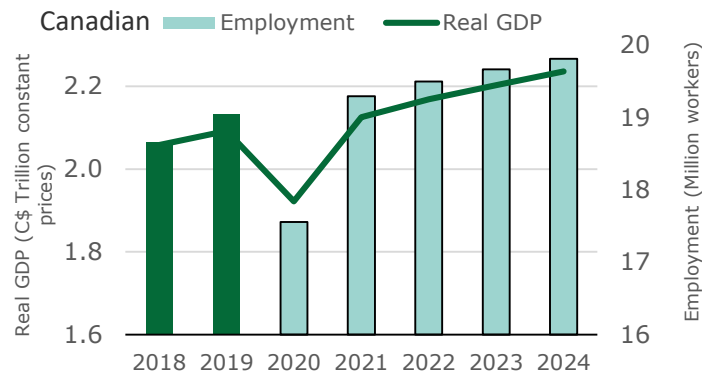
Pessimistic

## 1 Steep but Short-lived Downturn

Virus containment is successful leading to a steep but short-lived economic decline

### Key Assumptions:

- Scientific advances allow more rapid return to normal as ample testing capacity and vaccines trigger easing in public health restrictions
- Business and consumer confidence remains high
- Recovery is bolstered by additional fiscal stimulus by federal and provincial governments

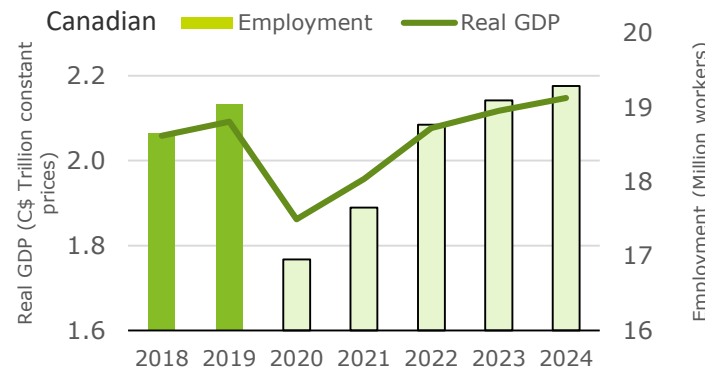


## 2 Prolonged Pandemic, Delayed Rebound

Virus resurgence in second half of 2020 leads to a delayed economic rebound and slower recovery

### Key Assumptions:

- Virus resurges in second half of 2020 leads to new lockdowns in advanced economies, while emerging economies ramp-up containment measures
- Public support proves more limited and less effective than in the first COVID-19 wave
- Persistent public health concerns diminish business and consumer confidence in the medium term

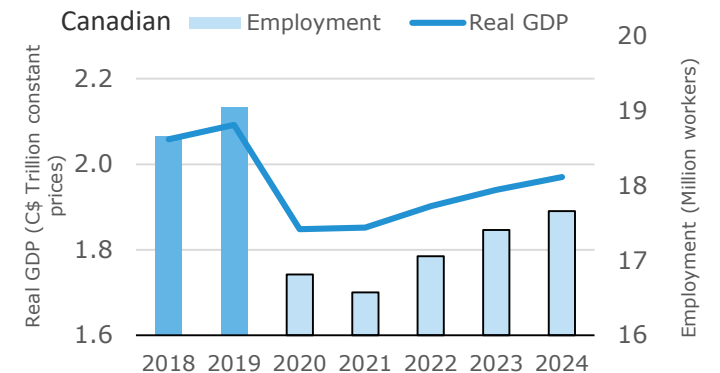


## 3 Economic Depression

Virus containment fails leading to a prolonged economic depression

### Key Assumptions:

- Vaccine development or deployment is not as effective as anticipated
- Deep economic recession triggers a financial crisis with significant impact on financial markets
- Government support programs are overwhelmed and socio-political unrest materializes in a large number of countries





# Metro Vancouver Economic Recovery Scenarios

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Assuming health care risks are managed, the economic recovery in Metro Vancouver should continue, although the pace is likely to slow after a strong rebound following the reopening of the economy in May

Optimistic

Pessimistic

## Short-lived Downturn

- Metro Vancouver's economy declines by 7.5% in 2020
- The economy rebounds strongly in the second half of 2020 and posts growth of 8.4% in 2021, however many sectors continue to operate below pre-COVID levels
- The economy returns to pre-COVID levels in the second half of 2021

## Prolonged Recession & Delayed Rebound

- Metro Vancouver's economy declines by 8.7% in 2020
- A short rebound occurs in late 2020, but a virus resurgence results in growth of just over 4.5% in 2021
- The economy returns to pre-COVID levels towards the second half of 2022

## Economic Depression

- Metro Vancouver's economy declines by 8.9% in 2020
- Poor virus containment, high levels of debt, and limited government capacity leads to low or no growth in 2021 and a prolonged stagnation
- The economy does not return to pre-COVID levels until 2024 or after

## Metro Vancouver Real GDP, 3 Scenarios



Growth Projections  
%

	2010-18 (avg)	2019	2020	2021	2022	2023-30
<b>Historical</b>	<b>3.6%</b>	<b>2.8%</b>				
<b>Baseline</b>			-7.5%	8.4%	3.3%	2.0%
<b>Prolonged Recession</b>			-8.7%	4.5%	5.2%	2.2%
<b>Depression</b>			-8.9%	1.1%	4.2%	2.6%

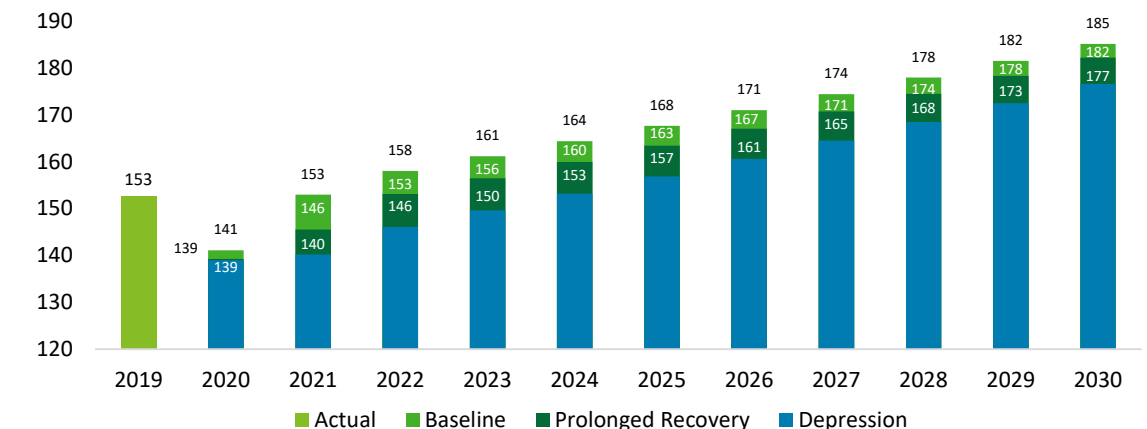
Sources: Deloitte Estimates, the Conference Board, and Statistics Canada.

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## Metro Vancouver Real GDP



\$C billion, inflation adjusted at 2012 prices



# Short-lived Downturn Scenario: Industry Impacts

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Under the optimistic scenario, economic growth returns in second half of 2020 and accelerates past 2021, driven by growth in the finance, insurance, real estate and technology/professional services segments of the economy

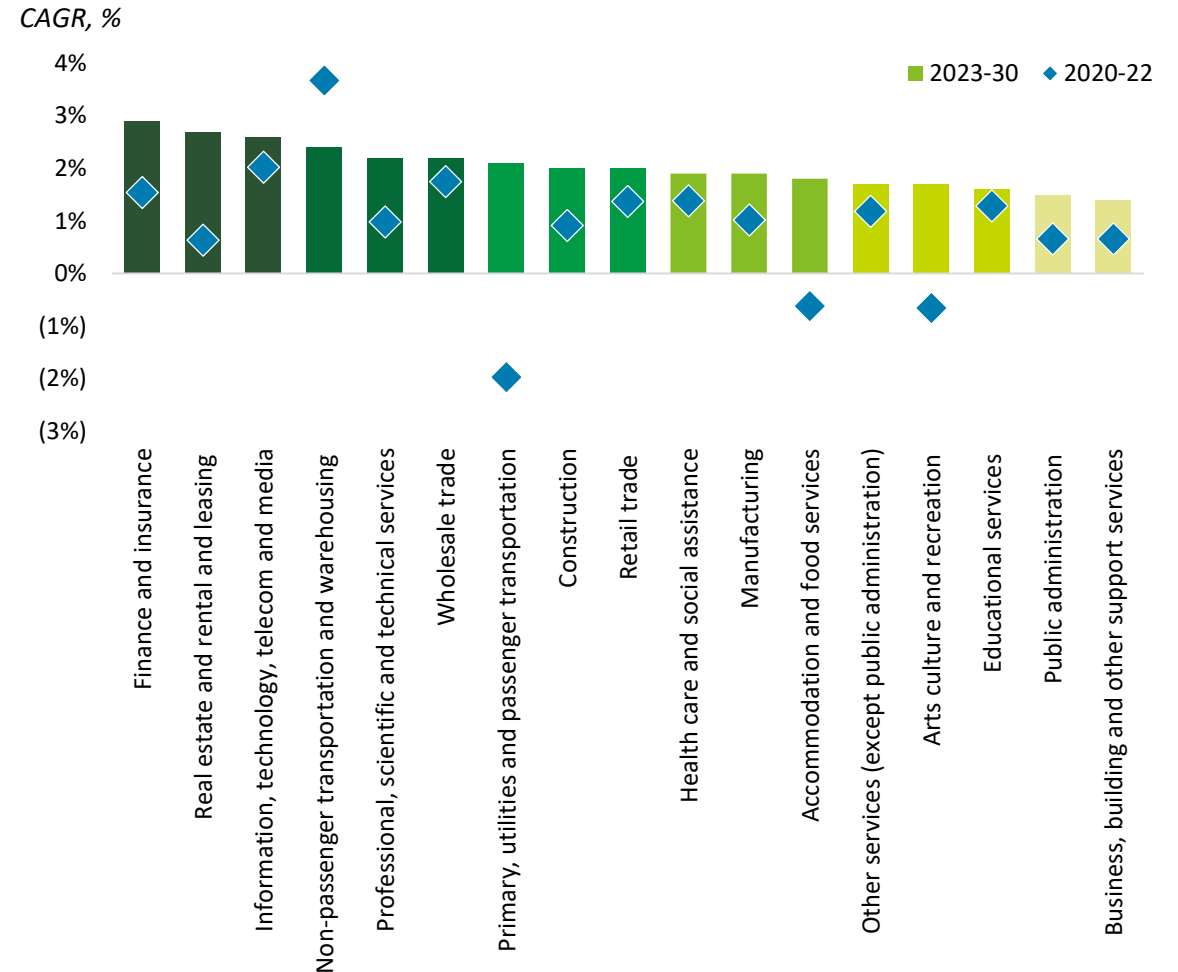
## Economic and demographic impacts

- This scenario models significant declines in the level of unemployment in Q3 and Q4 of 2020
- The unemployment rate averages slightly less than 8% in 2020 and declines to 6.5% in 2021 before gradually coming down to 5.3% over the following 4 years
- Employment growth supports a rebound in consumption of 9% in 2021
- Business investment picks up in the second half of 2020 and returns to pre-COVID levels as early as Q2 in 2021
- The impact of COVID19 on population growth is transitory; after dropping to 0.4% in 2020, growth picks up to 1.4% in 2021 as strong immigration inflows resume
- Over the medium term, population growth is in the 1.1% to 1.3% range

## Industry impacts

- Over the recovery period of 2020-2022, the technology; non-passenger transportation and warehousing; and wholesale trade industries are projected to experience more robust growth compared to other segments of the economy
- When considering the post-recovery period of 2023-2030, the following industries are best poised for long-term growth: finance, insurance, and real estate; technology; non-passenger transportation and warehousing; and professional, scientific, and technical services
- During the same period of 2023-2020, the economy returns to a sustainable pace of growth at just over 2%

## Baseline industry GDP projections



Sources: Deloitte Estimates, the Conference Board, and Statistics Canada.

# Prolonged Recovery Scenario: Industry Impacts

Under the prolonged recovery scenario, growth is driven by activity within the technology and professional services sectors, but finance, and real estate industries are more challenged due to exposure to hard-hit parts of the economy

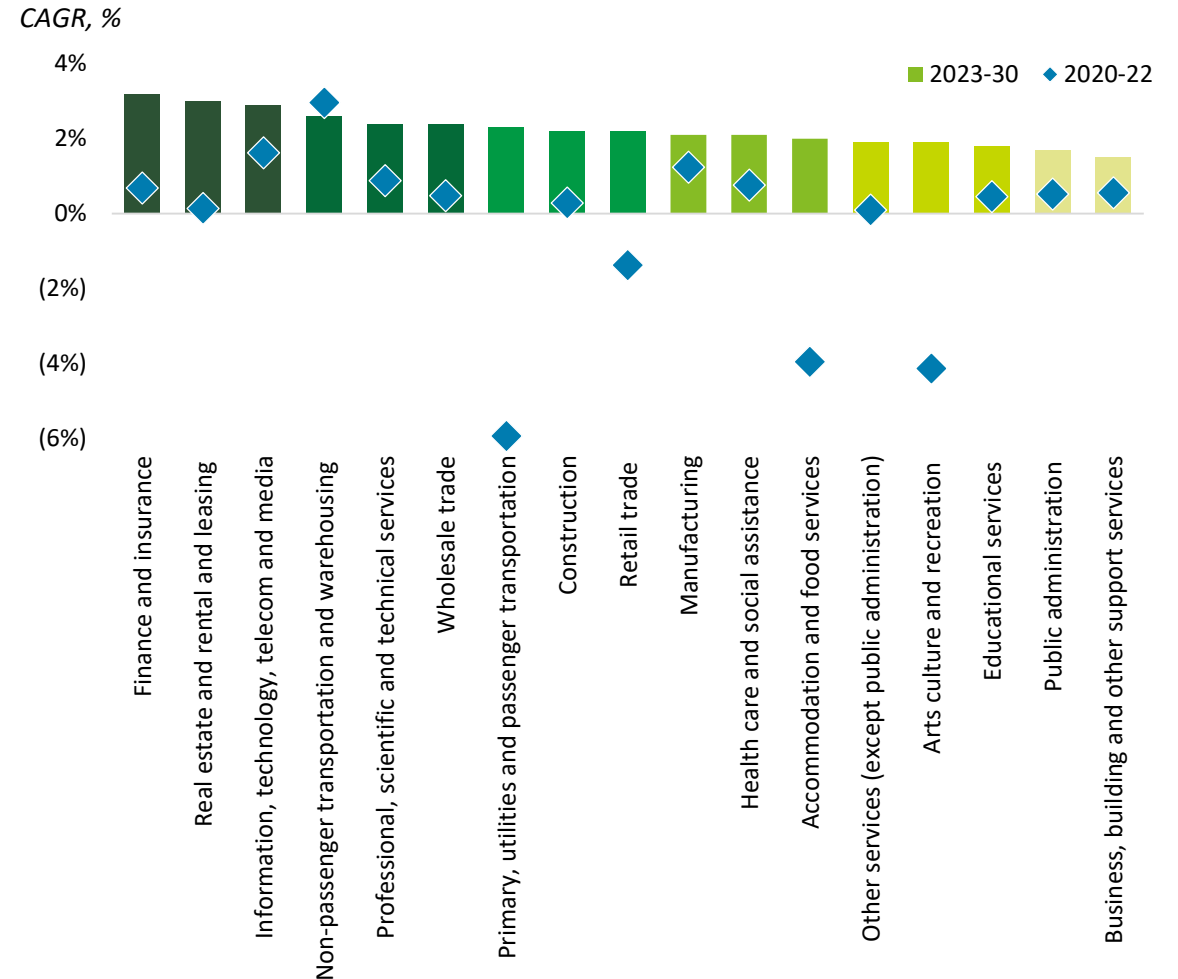
## Economic and demographic impacts

- This scenario models moderate declines in the level of unemployment in Q4 of 2020 and a pick-up in Q1 of 2021
- The unemployment rate averages 9.2% in 2020 and declines to 7.7% in 2021 before gradually subsiding to 5.7% over the following four years
- Intermittent employment growth leads to a more volatile rebound in consumption and such uncertainty limits business investment growth in the first half of 2021
- The impact of the COVID19 pandemic on population growth is prolonged in this scenario; the drop of 0.4% in 2020 is followed by a modest pick-up of 0.7% in 2021; stronger immigration inflows drive a robust recovery in 2022 and beyond
- Over the medium term, population growth is in the 1.1% to 1.3% range

## Industry impacts

- Over the recovery period of 2020-2022, the technology; non-passenger transportation and warehousing; and manufacturing industries are projected to experience more robust growth compared to other segments of the economy
- When considering the post-recovery period of 2023-2030, the following industries are best poised for long-term growth: finance, insurance, and real estate; technology; non-passenger transportation and warehousing; and professional, scientific, and technical services
- During the same period of 2023-2020, the Metro Vancouver economy grows at a sustainable pace of 2.2%

## Prolonged Recovery industry GDP projections



Sources: Deloitte Estimates, the Conference Board, and Statistics Canada.

# Broader Trends Impacting the Canadian Economy

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COVID-19 has reoriented the direction and speed of certain trends impacting the Canadian economy relevant to investment in the region

## Emerging Trends



(i.e., activity that COVID-19 has spurred or stimulated)

Disrupted or changing supply chains

Industrial sovereignty/protectionism

Increased role of government

Change in consumer behavior

- The COVID pandemic has triggered emerging trends that will have a lasting impact on the globaleconomic ecosystem in ways
- In particular, supply chain disruption is expected to lead to a rewiring of the structure of global supply chains
- Pockets of industrial vulnerabilities are expected to drive a wider push in favour of industrial sovereignty and protectionism of key sectors for national security interests
- Consumer behavior will be affected as certain activities are directly exposed to pandemic risks and some workers are forced out of their pre-COVID occupations

## Accelerating Trends



Increased debt for households, businesses and government

Shift to digital content

Changing nature of work

Increase in automation and AI

- The pandemic has also given rise to conditions that further accelerate trends that were already impacting our economies
- Government spending to offset the impact of the pandemic will raise debt levels across all sectors of the economy putting downward pressures on public and private spending over the medium to longer terms
- The need for physical distancing to confront the spread of the virus dramatically pushed the relative share that digital activities have relative to the non-digital economy
- Accordingly, remote work became the dominant labour arrangement in many of the core sectors of the economy putting downward pressure on urbanization and commercial real estate trends

## Structural Change



Addressing climate change

Demographic change

Weak investment and poor productivity

Populism

- The pandemic also altered the course of some of the pre-existing trends affecting both global and local economies
- For example, lower transportation volumes mayease part of the carbon footprint resulting from communities activities
- Among the most important trends that will determine economic performance in the medium to long-term it is important to consider demographic changes(should the pandemic impact pre-COVID immigration trends), investment and productivity concerns (due to higher uncertainty and debt), and a continued rise of populism (should citizens feel like they are not getting ahead)



# SWOT Findings from the Perspective of an Investor (1/2)

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The strengths and weaknesses identified in this study are not fundamentally different than those reflected in other regional studies, as they reflect long-lasting economic assets and long-term advantages; the region continues to benefit from stable institutions, strategic location and access to a highly educated and diverse workforce, while being hampered by a small domestic market, fewer head offices, lack of affordable housing, and perception of regulatory complexity among other issues

## STRENGTHS



- A **stable macro-economic and political climate** reduces investment risk
- Strong public institutions, high degree of social resiliency and public trust reduce investment risk and support talent attraction



- Located at a strategic “T” **connecting Asian and North American markets** and the Cascadia Corridor
- **Gateway infrastructure**, such as the Port of Vancouver, Vancouver International Airport and a well established rail and trucking network enables access to global supply chain and markets
- Canadian **trade agreements** such as USMCA, CETA and CPTPP provide preferred access to North American, European and Asian markets



- **Highly educated and diverse workforce**; a net attractor of talent from other provinces and countries
- **Favorable national immigration policies** and provincial express immigration programs
- Home to **world-renowned education institutions**, academics and research assets
- **High quality of life**, health and safety support talent attraction/retention by investors as well as relocation of staff to the region



- **Lower operating costs** in certain categories (e.g. labour, office space, utilities) relative to other global metropolitan areas
- Investors looking to locate in specific industries (such as film or technology), may be eligible for provincial **tax credits and other incentives**



- Strong **start up ecosystem** which can provide acquisition targets, or potential partners for incoming investments
- Home to **Canada’s Digital Technology supercluster**, undertaking leading technology research in core sectors such as natural resources, health, and manufacturing

## WEAKNESSES



- Relatively **small domestic market** within a global context and is located relatively far from other major markets (other than Seattle)
- Lacks a high **concentration of corporate head offices**, which may reduce business opportunities in the region



- Relatively **high marginal effective tax rate on capital** investments, and relatively high construction costs
- Limited **availability of industrial land**, due to competing land-use priorities



- Poor **housing affordability** may constrain ability to attract talent and relocate staff to the region
- Underinvestment in Metro Vancouver’s **regional transit infrastructure** compared to peers and associated congestion costs hamper productivity and impact quality of life
- Relatively **low labour productivity levels**, a factor that contributes to relatively low after-tax incomes



- Perception that the region does not offer **direct financial incentives** to individual investors
- Perception of a high **regulatory burden** and a lengthy permitting process
- Perceived lack of “**one stop shop**” **regional service** to potential investors (which can be addressed as Metro Vancouver continues to build out and advertise the Regional Economic Prosperity service)



Incentives/Economic Policy



Cost Competitiveness



Access to Talent



Access to markets/logistical positioning



Macroeconomic stability

# SWOT Findings from the Perspective of an Investor (1/2)

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COVID-19 and other recent developments have reshaped the opportunities and threats facing Metro Vancouver; while the region is well positioned to attract investment in a range of emerging and established economic segments and could benefit from recovery stimulus, decreased investment flows are expected to significantly increase competition for investment deals among jurisdictions

## OPPORTUNITIES



- A potential global shift towards sustainable investments could result in investment opportunities in the emerging **Green Economy**, bolstered by the CleanBC plan
- The emerging **Liquefied Natural Gas** (“LNG”) sector in BC could result in opportunities for Metro Vancouver to attract energy companies as well as supporting businesses that are part of the supply chain
- Rising global demand in specific sectors such as **Health Care** and the **Digital Economy** could provide an opportunity to capitalize on existing industry clusters in Metro Vancouver
- Metro Vancouver could be a hospitable setting for **Medtech** related investments due to the emerging cluster in the region and large presence of health institutions, universities and research talent
- Metro Vancouver’s favourable geographic location and existing gateway infrastructure create an opportunity for continued investment attraction in the **Transportation and Logistics sector**, despite the negative impacts from COVID-19 on passenger transportation
- Major **Film productions** in the United States may see Metro Vancouver (i.e. Canada’s “Hollywood North”) as a more desirable location if the region continues to manage the COVID-19 pandemic well
- Opportunities to attract investors to an established **Gaming** cluster
- Commitments in BC’s Economic Recovery Plan could set attractive conditions for the **Agriculture** sector in the region
- Recovery stimulus efforts could drive **investments in critical infrastructure** that improves the value proposition of the region
- Divesting of **non-essential assets** could create investment attraction opportunities
- Movement towards **repatriating supply chains** and developing supply chain resiliency could create domestic investment opportunities



## THREATS



- **FDI flows** into Canada are expected to significantly decline due to the pandemic, reducing the sense of urgency for investors to execute on deals
- **Canadian business investment** is expected to fall which could weaken the strength of businesses cases for new investment in Canada
- Metro Vancouver’s individual **spending patterns** have not yet returned to pre-pandemic levels and will likely not for some time, thereby limiting the scale of potential sales opportunities
- Global forces and a **changing structure of the BC economy** may limit opportunities in some resource sectors, such as Forestry and potentially Mining
- Investment opportunities in Metro Vancouver’s **service intensive economy** may be limited due to the impact of COVID-19
- The normalization of **remote working** could diminish business cases for new investments in certain areas
- In recent years, BC’s business environment has been flagged for **corruption risks** damaging perception on its investment climate
- Global **policy responses to COVID-19** related to FDI are uncertain, potentially discouraging investors from making any timely investments
- Canada has released a **policy statement on FDI** that could signal tightening of government reviews/oversight of specific FDI initiatives
- Uncertainty associated with the **reconciliation process** with First Nations creates additional risk for potential investors; successful reconciliation is fundamental in attracting investment
- **Fiscal pressures** on municipalities could limit investments that could enhance Metro Vancouver’s competitiveness and change the cost profile of investing in the region
- Due to the COVID-19 pandemic, global investors will have less access to **traditional investment attraction tactics** that profile and market jurisdictions like Metro Vancouver
- Given a decline in deal flow, investors could expect **generous incentives** to attract investment, an approach historically not prioritized by BC



Incentives/Economic Policy



Cost Competitiveness



Access to Talent



Access to markets/logistical positioning



Macroeconomic stability

# Elements of a Value Proposition to Global Investors

The region's value proposition could rest on access to talent, access to global markets, quality of life, cost of doing business, and resilient civil society; these elements are largely agnostic to sector but may be more or less applicable in different source markets or for different types of investors, with social resilience gaining in importance in the wake of COVID-19 and civil unrest in other jurisdictions



## Access to Talent

- Metro Vancouver boasts a highly educated workforce that can help to reduce skills gaps, attract globally competitive talent and develop a pipeline of future talent
- Favorable immigration policies reduce the time and effort required to access global talent and contribute to Metro Vancouver's position as a net attractor of talent from other provinces and countries



## Access to Global Markets

- By investing in Metro Vancouver, investors gain strategic access to Asian and North American markets
- With access to the Cascadia Corridor, investors in Metro Vancouver stand to benefit from its strong technology start-up ecosystem and potential growth opportunities in the region
- Key trade agreements such as the USMCA, CETA and CPTPP offer investors access to North American, European and Asian markets, helping develop global supply chains



## Quality of Life

- Metro Vancouver is consistently ranked as one of the most livable, healthy and safe cities in North America
- Metro Vancouver is home to a young, diverse and progressive population that contributes to the attraction and retention of employees
- Metro Vancouver's vibrant arts and culture scene and top-rated food destination enhance residents' quality of life while attracting visitors to the region



## Cost of Doing Business

- Stable business climate, financial and legal institutions can reduce investment risks for global investors
- Investors stand to benefit from relatively low effective corporate tax rates as well as low labor, office space, and utility costs
- BC has a suite of sector specific incentives and initiatives to offset costs for investments



## Resilient Civil Society

- There is a high degree of trust in public institutions and social resiliency in the region, creating a stable and favorable climate for investors
- For example, local health authorities have effectively gained public trust as part of COVID-19 containment efforts
- Furthermore, the region has not exhibited the levels of civil unrest seen in other large metropolitan areas such as Seattle, Portland, New York and Hong Kong

# Summary of Implications to the Regional Economic Prosperity Service (1/2)

DRAFT

This report identifies a number of findings that should be taken into consideration by the Regional Economic Prosperity service when developing an investment attraction strategy for the region

## Findings

Metro Vancouver offers a number of strategic advantages and assets that are attractive to investors, including strong institutions and a stable socio-economic environment, a strategic location offering access to North American and Asian markets, a highly educated and diverse workforce, lower costs of doing business in certain categories, a robust start-up ecosystem and a high quality of life

The region's value proposition to investors is undermined by a high cost of living, poor housing affordability, high marginal tax rates on capital investments, high construction costs, underinvestment in transit infrastructure, diminishing industrial land and perceived regulatory complexity and lack of financial incentives

The region has a number of established economic clusters that demonstrate competitive advantage, including gateway and transportation, tourism, information/cultural industries, high-technology, and finance, insurance and real estate; in addition there are niche or emerging sub-clusters in area such as technical apparel, green economy, medical technologies and video games and interactive media

FDI flows into Canada are expected to significantly decline due to the COVID-19 pandemic, reducing the sense of urgency for investors to execute on deals. Canadian domestic business investment is also expected to fall.

Among Canadian Metropolitan Areas, Metro Vancouver has been one of the hardest hit economically by the COVID-19 crisis, due to the overrepresentation of service industries such as accommodation and food services, culture, recreation, and transportation

## Implications

The Regional Economic Prosperity Service ("REPS") needs to focus on advertising Metro Vancouver's assets and strengths to the global investor community, particularly focusing on dimensions that differentiate us from comparable metropolitan areas as identified in this report.

REPS should develop targeted messaging to investors to address areas of perceived regional weaknesses. REPS should take advantage of COVID stimulus to advocate with regional and provincial stakeholders for policy measures and investments to address areas of competitive weakness.

While this report is not intended to select sectors for investment attraction, it is recommended that REPS plays to the region's strengths and areas of demonstrated competitive advantage when prioritizing sectors to focus on. Industry expertise in the selected sectors will be critical for attracting investors and catering to their needs.

The region can anticipate a potentially smaller pipeline of active deals to attract from both foreign and domestic investors. A smaller pipeline may lead to jurisdictions' intensely competing for a smaller number of deals. New forms of incentives, investor services and business casing may be required to compete successfully against peers and short-term targets should be set reasonably to reflect current conditions.

Industries that have been impacted by COVID-19 particularly hard may have diminished prospects for incoming investment in the short to medium term; given these headwinds, the investment attraction targets for such sectors should be tempered.



Continued...

## Findings

Deloitte has modelled 3 potential scenarios for the region’s economic recovery. Across the scenarios, regional GDP declines by at least 7.5% in 2020 and does not return to pre-COVID levels until at least the second half of 2021. Growth in the next few years and the timing of recovery is highly divergent across the scenarios.

After the strong rebound since the reopening of the economy, the economic recovery of the region is expected to be slow and highly variable by sector. Over the medium to long term, growth will be driven by finance, insurance, real estate, technology, and professional services industries, while a deceleration is expected in the retail, hospitality, and non-residential construction industries relative to the pre-crisis levels.

The COVID-19 crisis has triggered rising global demand in specific sectors such as health care and the digital economy which could create opportunities in the short-to-medium term.

The transformation of the energy sector in BC towards alternative energy resources and an emerging Liquefied Natural Gas (“LNG”) industry could present opportunities for Metro Vancouver to attract investments from both energy companies and supporting services firms that are part of the ecosystem.

A range of other trends, opportunities and threats have been identified in this report, such as diversification of supply chains, changes in consumer behavior and spending patterns, recovery stimulus efforts and shifting policy responses, structural changes in the resource-based sectors in BC and others.

## Implications

While each scenario outlines a different velocity of recovery, attracting investment in the short to medium term can be expected to be a challenge as investors encounter an uncertain economic context. **REPS planning needs to be nimble and agile** going forward.

Given short-term sector performance is highly uncertain depending on the scenario, REPS should focus on sectors that are positioned for growth over the medium to long-term when developing an investment attraction strategy and setting targets.

Working with relevant partners, Metro Vancouver could develop tactics/initiatives designed to market the region’s capabilities in these areas and/or to connect investors to relevant suppliers to help capitalize on this opportunity.

Proactive, targeted approach to potential investments in the “green economy” and LNG sector and supporting ecosystem could help to capitalize on this opportunity.

REPS should consider the trends, opportunities and threats identified in this report when developing an investment attraction strategy for Metro Vancouver.

# Looking Forward

DRAFT

This study finds a vibrant, growing regional economy that is currently navigating through the impacts of COVID-19; while each scenario of economic recovery yields a different set of factors that could shape investment, the following next steps are recommended to establish the region's investment attraction approach:

**Regular update on the impact of COVID-19 crisis on the region:** In the coming months, we can anticipate further datasets to be made available on the true depth of economic contraction and distribution of impacts. We recommend regularly updating the economic analysis in the coming months to provide a refreshed perspective on the impacts of COVID-19 to the region.

**FDI flow analysis:** Several organizations such as the OECD, UNCTAD and World Bank have forecasted a decline in expected FDI activity globally. An analysis of FDI activity in Canada or the region in the coming months/years could help to identify key source markets that have invested in the region.

**Ecosystem analysis of nascent sectors:** This report identifies several examples of nascent sectors that are developing in the region. As these segments of the economy are emerging relative to established ones an investigation into the economic characteristics, demand drivers and key assets of these sectors could help provide new, refreshed value proposition elements and up-to-date research on the regional economy.

**Investment attraction strategy:** Historically, investment attraction organizations have focused on growing investment into a relatively prosperous Canadian economy. In the coming months, given ongoing uncertainty – a new approach and role for investment attraction organizations may be required. A strategy which positions the Regional Economic Prosperity Service to better respond to conditions today should include elements such as identification of priority opportunities, target domestic and global markets, defined tactics/programming, identification of additional resourcing requirements (as appropriate), an aftercare service/approach and reporting/data collection initiative(s).





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